

FDIC State Profile

SUMMER 2003

Wisconsin

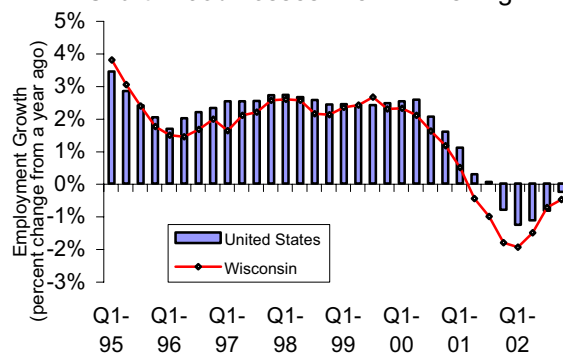
Wisconsin's economy is slowly improving.

- Wisconsin's economy is diverse, with manufacturing, agriculture, and tourism playing significant roles. The state is second nationally in manufacturing, based on employment shares, and a leading producer of cheese, milk, butter, and cranberries. Tourism is growing rapidly.
- Wisconsin's employment trend is improving and in line with the nation, but the state has yet to see positive job growth (see **Chart 1**).
- Manufacturing is important to Wisconsin (see **Chart 2**) and continues to lose jobs at a fairly high rate. In fourth quarter 2002, Wisconsin's manufacturing sector had 3.3 percent fewer jobs than a year earlier, roughly in line with national trends.
- Wisconsin has very high exposure to the paper industry, which has been under pressure from weak demand and falling prices. Paper production nationwide fell sharply in 2000 and 2001, and the rebound seen in 2002 has been short-lived, with production growth negligible in the first quarter of 2003.
- Weak prices remain a concern for the agricultural sector. Dairy farmers received an average price of \$11 per hundredweight of milk in first quarter 2003, down \$1.70 from one year earlier. After falling sharply from 1997 to 1999, cranberry prices have roughly stabilized, partly due to marketing restrictions in 2000 and 2001. The government dropped marketing restrictions in 2002, when production and prices edged up.
- The state's housing markets remain active. Home resales reached a record in 2002 and price appreciation held above four percent, based on the values of properties resold or refinanced (see **Chart 3**).
- Wisconsin faces a significant budget shortfall, and some projections call for the deficit to be 14 percent of fiscal year 2004 projected spending. Economy.com forecasts deep cuts in spending, which may begin to take a toll on statewide government employment levels.

Wisconsin bank performance is generally strong.

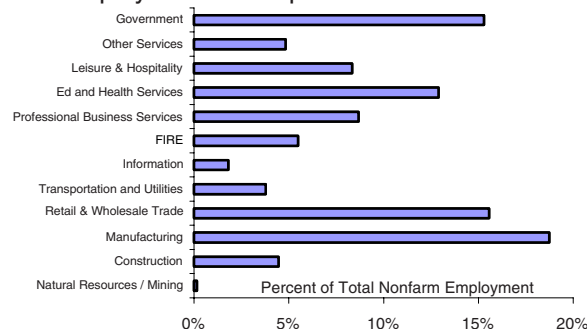
- Wisconsin ranks tenth nationally for the number of insured financial institutions (314 as of year-end 2002). Eighty-two percent of banks and thrifts headquartered in Wisconsin have less than \$250 million in assets.

Chart 1: Job Losses Are Diminishing



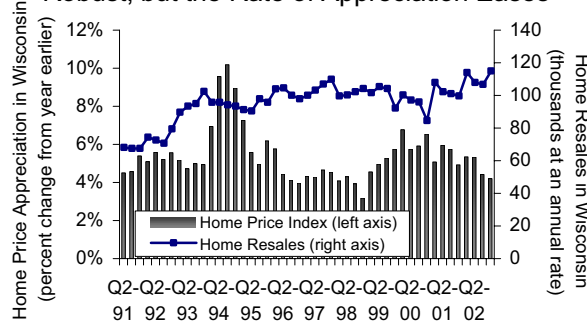
Source: Bureau of Labor Statistics

Chart 2: Manufacturing and Government Employment are Important to Wisconsin



Source: Bureau of Labor Statistics

Chart 3: Wisconsin Home Sales Remain Robust, but the Rate of Appreciation Eases



Source: National Association of Realtors; Office of Federal Housing Enterprise Oversight

State Profile

- Wisconsin's community banks¹ reported an aggregate past-due and nonaccrual loan ratio of 2.36 percent for December 31, 2002, slightly better than the 2.46 percent for all community banks in the Chicago Region. The percentage of past-due and nonaccrual loans remains higher than pre-recession levels for many loan categories in Wisconsin, indicating that the effects of the 2001 recession have not fully dissipated (see **Chart 4**).
- Wisconsin's community banks have significant exposure to 1–4 family residential and commercial real estate (CRE) loans. Both types have higher delinquency rates than prior to the recession, yet have improved modestly more recently (see **Chart 5**).
- In Milwaukee, office vacancy rates reached 17.5 percent in first quarter 2003, largely due to weak demand as a result of weak or nonexistent job growth.² During the two years ending December 31, 2002, all major commercial real estate submarkets in Milwaukee saw rising vacancy rates, in line with major markets in the Chicago Region.
- Among Wisconsin's community banks, the allowance for loan and lease losses (ALLL) relative to noncurrent loans remains well below the December 31, 2000, level of 168 percent. As of year-end 2002, ALLL coverage was 128 percent and seems to have stabilized in recent quarters.
- Profitability, measured by median return on assets, was up significantly for Wisconsin's community banks in 2002, rising from 1.07 percent to 1.23 percent.
- Margin improvements were the primary driver of higher profitability at community banks. The median net interest margin rose from 3.88 percent in 2001 to 4.18 percent in 2002 (see **Chart 6**). These institutions experienced significant funding cost improvements, as the median cost of funding earning assets fell from 3.88 percent to 2.53 percent during the same period, overriding a more modest decline in asset yields.
- Like many states in the Chicago Region, Wisconsin is headquarters to many relatively new (less than nine years old) insured institutions. As of December 31, 2002, there were 30 insured institutions (10 percent) established within the last 9 years, and ten of those were established within the last 3 years.

Issues to Watch

- A potential risk to the improving Wisconsin economy exists in a state budget deficit that may require

¹ Insured institutions with less than \$1 billion in total assets, excluding de novo banks less than three years old and specialty institutions.

² Property & Portfolio Research, Inc.

Chart 4: Aggregate Delinquencies Remain Above Pre-Recession Levels in Many Loan Categories

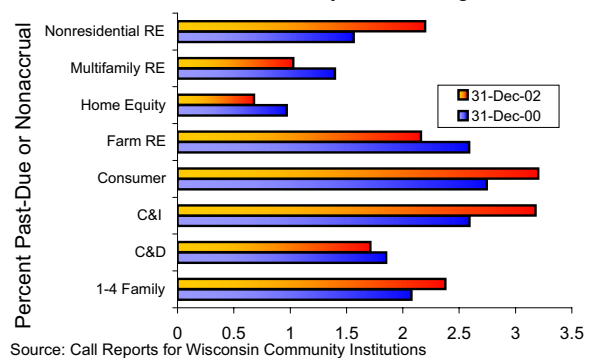


Chart 5: One-to-Four Family and Commercial Real Estate Lending Dominate Loan Portfolios

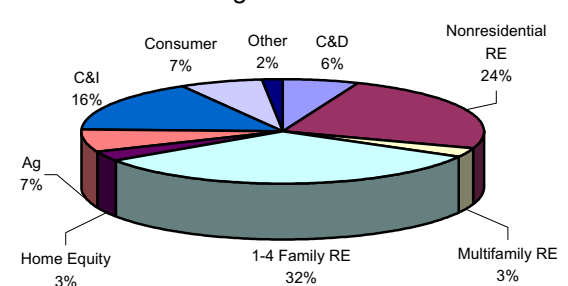
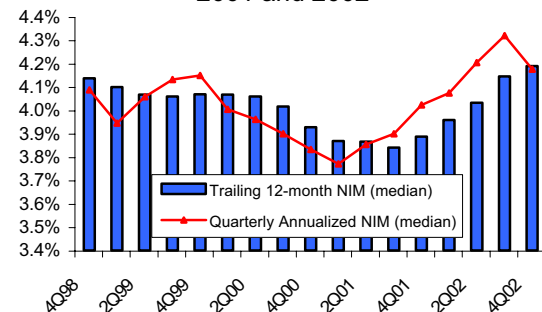


Chart 6: Margins Improved Throughout Most of 2001 and 2002



significant spending cuts, possibly affecting the more traditionally stable government employment sector.

- Effective risk management practices remain important, particularly in the CRE lending category, which is a large lending segment. High CRE exposure, increasing delinquencies, and weakening market fundamentals, primarily stemming from reduced demand, indicate this is a potential area of weakness. Longer-term leases may renew at less favorable rates for property owners and newer development may subside until job growth strengthens.

Wisconsin at a Glance

General Information	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Institutions (#)	314	322	354	380	389
Total Assets (in thousands)	103,108,548	103,366,339	97,913,449	92,214,872	98,277,308
New Institutions (# < 3 years)	10	14	11	10	11
New Institutions (# < 9 years)	30	32	28	25	22
Capital	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Tier 1 Leverage (median)	9.34	9.14	8.94	9.00	9.27
Asset Quality	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Past-Due and Nonaccrual (median %)	2.16%	2.28%	1.79%	1.42%	1.71%
Past-Due and Nonaccrual > = 5%	39	46	27	14	21
ALLL/Total Loans (median %)	1.25%	1.22%	1.21%	1.23%	1.27%
ALLL/Noncurrent Loans (median multiple)	1.35	1.33	2.15	2.28	2.19
Net Loan Losses/Loans (aggregate)	0.26%	0.26%	0.16%	0.17%	0.24%
Earnings	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Unprofitable Institutions (#)	10	10	13	15	5
Percent Unprofitable	3.18%	3.11%	3.67%	3.95%	1.29%
Return on Assets (median %)	1.21	1.06	1.02	1.11	1.14
25th Percentile	0.86	0.76	0.74	0.82	0.89
Net Interest Margin (median %)	4.14%	3.86%	3.88%	4.01%	4.08%
Yield on Earning Assets (median)	6.69%	7.75%	8.10%	7.77%	8.10%
Cost of Funding Earning Assets (median)	2.53%	3.86%	4.27%	3.76%	3.99%
Provisions to Avg. Assets (median)	0.15%	0.13%	0.12%	0.10%	0.10%
Noninterest Income to Avg. Assets (median)	0.65%	0.57%	0.53%	0.53%	0.57%
Overhead to Avg. Assets (median)	2.72%	2.69%	2.61%	2.68%	2.67%
Liquidity/Sensitivity	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Loans to Deposits (median %)	82.16%	83.95%	86.17%	82.89%	77.27%
Loans to Assets (median %)	69.50%	70.37%	71.54%	69.93%	66.17%
Brokered Deposits (# of Institutions)	135	135	155	138	122
Bro. Deps./Assets (median for above inst.)	3.33%	2.66%	3.04%	2.71%	2.04%
Noncore Funding to Assets (median)	15.28%	15.20%	16.05%	13.23%	10.91%
Core Funding to Assets (median)	73.58%	73.84%	73.31%	75.48%	77.87%
Bank Class	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
State Nonmember	201	207	215	215	220
National	45	49	52	54	58
State Member	27	25	48	68	66
S&L	8	8	9	12	12
Savings Bank	17	16	11	8	10
Mutually Insured	16	17	19	23	23
MSA Distribution	# of Inst.	Assets	% Inst.	% Assets	
No MSA	174	19,037,216	55.41%	18.46%	
Milwaukee-Waukesha WI PMSA	44	48,769,989	14.01%	47.30%	
Madison WI	22	7,492,980	7.01%	7.27%	
Appleton-Oshkosh-Neenah WI	12	3,305,604	3.82%	3.21%	
Wausau WI	10	1,532,804	3.18%	1.49%	
Minneapolis-St Paul MN-WI	8	1,077,602	2.55%	1.05%	
Janesville-Beloit WI	8	1,067,682	2.55%	1.04%	
Eau Claire WI	8	999,691	2.55%	0.97%	
La Crosse WI-MN	7	3,767,459	2.23%	3.65%	
Green Bay WI	6	11,684,328	1.91%	11.33%	
Sheboygan WI	5	633,938	1.59%	0.61%	
Racine WI PMSA	4	3,070,126	1.27%	2.98%	
Duluth-Superior MN-WI	4	390,475	1.27%	0.38%	
Kenosha WI PMSA	2	278,654	0.64%	0.27%	